

Message Text

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FOR AMBASSADOR WOLFF

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SUBJECT: SECRETARY BLUMENTHAL'S MEETING WITH BRAZILIAN
FINANCE MINISTER SIMONSEN AT IMF MEETING, MEXICO CITY,
APRIL 28

1. SECRETARY BLUMENTHAL, ACCOMPANIED BY UNDER SECRETARY
COOPER AND BY WIDMAN AND FISHER OF TREASURY, HELD BILATERAL
MEETING WITH MINISTER SIMONSEN DURING IMF INTERIM COMMITTEE
MEETINGS IN MEXICO CITY. FOLLOWING ARE MAIN POINTS RAISED.

2. COMMON FUND: SIMONSEN THOUGHT IT FUTILE TO ESTABLISH
A COMMON FUND NOT PRECEDED BY THE ESTABLISHMENT AND SUBSE-
QUENT "COLLECTIVIZATION" OF INDIVIDUAL ICA'S. BLUMENTHAL
AGREED.

3. POSSIBLE BLUMENTHAL VISIT TO BRAZIL: SIMONSEN EXPRESSED
REGRET THAT THE SECRETARY HAD NOT ACCOMPANIED PRESIDENT
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CARTER TO BRAZIL. HE INVITED THE SECRETARY TO FIND A
CONVENIENT EXCUSE TO VISIT. BLUMENTHAL PROMISED TO DO SO.

4. MTN: BLUMENTHAL STRESSED THE NEED FOR BRAZIL TO BE
MORE FORTHCOMING IN THE MTN AND TO MOVE SOON TO TABLE
OFFERS. HE NOTED THAT AS MANUFACTURED EXPORTS BECAME MORE
DOMINANT IN GOB'S EXPORT MIX (SEE BELOW) IT WOULD BE IN

BRAZIL'S OWN INTERESTS TO PLAY BY THE RULES OF THE GAME.

SIMONSEN RESPONDED THAT HE HAD REPLACED THE PREVIOUS "TRADITIONALIST" NEGOTIATING TEAM WITH A NEW ONE HEADED BY DORNELLES, WHO HE INSTRUCTED TO TAKE AN "ACTIVE ROLE" IN THE MTN. HE ADDED THAT "SHOULD THE MTN FAIL" HE WOULD PURSUE THE NEGOTIATION OF A BILATERAL TREATY WITH THE U.S. BLUMENTHAL AND COOPER NOTED THAT THE PROBABILITY OF FAILURE WAS SLIGHT; BLUMENTHAL ADDED THAT THE PATTERN WHICH THIS ROUND OF NEGOTIATIONS HAD FOLLOWED WAS TYPICAL -- STARTING SLOWLY AT FIRST, IT HAS REACHED A POINT WHERE THE CONSEQUENCES OF FAILURE ARE TOO GREAT. THE REAL ISSUE IS WHETHER WE HAVE A SMALL OR A LARGE RESULT.

5. SUBSIDIES/COUNTERVAILING DUTIES: COOPER INQUIRED ABOUT SUBSIDIES/COUNTERVAILING DUTIES, SAYING THAT A CODE WAS MOST IMPORTANT FOR BRAZIL. BLUMENTHAL NOTED THAT TREASURY'S COUNTERVAILING DUTY WAIVER AUTHORITY EXPIRES IN JANUARY, 1979 AND THAT WE FACED A BILATERAL TRADE CONFLICT SHOULD BRAZIL FAIL TO NEGOTIATE A CODE ON SUBSIDIES. HE ADDED THAT AS MINISTER OF FINANCE, SIMONSEN SHOULD WELCOME THE REMOVAL OF SUBSIDIES FROM THIS BUDGET.

SIMONSEN SAID THAT HE FULLY AGREED WITH THE IMPORTANCE OF A SUBSIDIES/COUNTERVAILING CODE. DORNELLES WILL, HE SAID, BE CONCENTRATING ON THIS ISSUE. "WE NEED RULES ABOUT LIMITED OFFICIAL USE

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WHICH SUBSIDIES ARE PERMITTED. FOR NON-PERMITTED SUBSIDIES WE NEED A PHASE-OUT SYSTEM." HE EMPHASIZED THE IMPORTANCE OF AN INJURY CLAUSE, NOTING THAT ASSISTANT SECRETARY BERGSTEN HAD PROMISED TO CONSIDER ONE. BLUMENTHAL INDICATED A WILLINGNESS TO ACCEPT SUCH A CLAUSE UNDER THE PHASE-OUT CONDITIONS DESCRIBED BY SIMONSEN. IN THIS REGARD, SIMONSEN ASKED ABOUT THE LIKELY OUTCOME OF THE ZENITH CASE. BLUMENTHAL REPLIED THAT IT IS NOW BEING ARGUED BEFORE THE SUPREME COURT AND IS TOO EARLY TO PREDICT AN OUTCOME.

6. BRAZILIAN TAXATION OF REMITTANCES; SIMONSEN CLAIMED TO BE MOVING TOWARDS THE "ABOLITION OF TAX REMITTANCES." UNDER BRAZILIAN LAW, FIRMS ARE TAXED 12 NET OR 16 GROSS ON A THREE YEAR AVERAGE ON EXCESS PROFITS. SIMONSEN SAID THAT HE DID NOT KNOW OF ANY FIRM IN THE WORLD THAT COULD DISTRIBUTE 16 DIVIDENDS AND CONTINUE TO MAKE CAPITAL INVESTMENT. SIMONSEN FELT THAT ROYALTY REMITTANCES WERE NO PROBLEM IF APPROVED, ADDING THAT THE APPROVAL PROCESS WAS NO LONGER DIFFICULT. BLUMENTHAL NOTED THAT DIRECT INVESTMENT WAS RESPONSIBLE FOR THE RAPID ECONOMIC DEVELOPMENT THAT BRAZIL HAS EXPERIENCED AND EXPRESSED HOPE THAT BRAZIL WOULD NOT CLAMP DOWN ON

INVESTMENT. SIMONSEN CLAIMED THAT BRAZIL WAS NOT CLAMPING DOWN; THAT THOUGH THERE WERE THE USUAL CASES OF ABUSES, FOREIGN FIRMS WERE STILL BEING ENCOURAGED TO INVEST IN BRAZIL.

7. ECONOMIC: SIMONSEN LAMENTED THE RECENT DROUGHT IN SOUTHERN BRAZIL. ABOUT 5 MILLION TONS OF SOYBEANS WERE LOST (FROM A 13.5 MILLION TOTAL). PARTLY BECAUSE OF THE DROUGHT, BUT PRINCIPALLY DUE TO ECONOMIC DEVELOPMENT, MANUFACTURED GOODS WOULD LIKELY ACCOUNT FOR 58 OF THIS YEAR'S EXPORTS, PRIMAR PRODUCTS FOR 42 PERCENT. COFFEE (NOW BRAZIL'S SECOND LARGEST PRIMARY EXPORT PRODUCT, NEXT TO SOYBEANS) ACCOUNTED FOR 19 OF LAST YEAR'S EXPORTS VERS-

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SUS 65 IN THE 1950'S. EXPORTS ARE RUNNING WELL, SUCH THAT A \$1-1/2 BILLION (TRADE) SURPLUS IS EXPECTED FOR THIS YEAR. SIMONSEN CLAIMED THAT VOLKSWAGEN IS ACTIVELY EXPORTING TO THE ARAB COUNTRIES AND TO GERMANY AND "ARE SAVING MY BALANCE OF PAYMENTS."

INFLATION IS RUNNING AT AROUND THE 32 LEVEL, DOWN FROM 39 LAST YEAR AND 47 IN 1976. THE SECRETARY NOTED THAT WE WERE FIGHTING INFLATION AND REVIEWED PRESIDENT CARTER'S ANTI-INFLATION PROGRAM. SIMONSEN WARNED THE USG AGAINST INDEXATION, WHICH MADE IT IMPOSSIBLE TO EXORCISE INFLATION FROM AN ECONOMY.

8. COFFEE: SIMONSEN SAID THAT COFFEE HAD NOT BEEN AFFECTED BY THE DROUGHT. HE DID NOT EXPECT COFFEE PRICES TO RISE THIS YEAR, THOUGH PRICES WOULD REMAIN PERMANENTLY HIGHER THAN IN THE PAST. HE NOTED THAT SALES OF STOCKS HAD AMOUNTED TO 70 MILLION BAGS OVER THE PAST 10 YEARS AND THAT THE STOCKS HAD BEEN EXHAUSTED BY THE END OF THE FIRST HALF OF LAST YEAR. THIS YEAR'S SALES RATE WAS RUNNING AT 5 MILLION BAGS.

9. IMF QUOTA INCREASE/SDR ALLOCATION: REFERRING TO INTERIM COMMITTEE PROCEEDINGS, SIMONSEN EXPRESSED A PREFERENCE FOR AN EQUIPROPORTIONAL INCREASE OF QUOTAS AND A TOKEN ALLOCATION OF SDR'S.

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